

Message Text

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ACTION ARA-17

INFO OCT-01 ADP-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 SCEM-02 INT-08 NSC-10 SS-15

STR-08 CEA-02 L-03 EUR-25 IGA-02 RSR-01 /167 W
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R 311815 Z MAY 73

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 4150

C O N F I D E N T I A L SECTION 1 OF 3 SAN JOSE 1926

PLEASE PASS ALSO TO EXIMBANK AND COMMERCE

E. O. 11652: GDS

TAGS: EFIN, ENRG, EMIN, CS

SUBJECT: BORUCA HYDROELECTRIC PROJECT FOR
ALUMINUM SMELTER

REF: AMBASSADOR/ KROME GEORGE MEMCON OF
NOVEMBER 13, 1972

SUMMARY: THIS CABLE SUMMARIZES THE FIRST DRAFT OF
A FINANCING PLAN FOR CONSTRUCTING AT 800 MEGAWATT
CAPACITY HYDROELECTRIC COMPLEX ON THE TERRABA RIVER,
NEAR THE INDIAN VILLAGE OF BORUCA, FOR THE PURPOSE OF
SUPPLYING POWER FOR THE PROPOSED ALCOA ALUMINUM
REFINERY- SMELTER PROJECT. THE DRAFT, DRAWN UP BY
REPRESENTATIVES OF THE COSTA RICAN ELECTRICAL POWER
INSTITUTE, ICE, AND A MR. MEIER OF THE IBRD, ENVISAGES
THAT THE POWER GENERATING PROJECT (I. E. EXCLUSIVE OF THE
ALUMINUM PROCESSING PROJECT) WOULD COST \$286.5 MILLION
AND WOULD HAVE TO BE FINANCED FROM A NUMBER OF SOURCES,
INCLUDING THE EXIMBANK. THIS FINANCING PLAN HAS NOT
YET BEEN DISCUSSED WITH ALL POTENTIAL PARTICIPANTS.
ACTION REQUIRED: (A) FOR DEPARTMENT; MR.
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ALEXANDER MURRAY, JR., VICE PRESIDENT OF THE BOARD OF ICE, WILL BE IN WASHINGTON ON OR ABOUT JUNE 14 TO DISCUSS THE PROJECT FURTHER WITH IFT'S. WE HAVE SUGGESTED THAT HE CONTACT ARA/ CEN/ CR FOR POSSIBLE ASSISTANCE. (B) FOR EXIMBANK: ACCORDING TO THIS PLAN, UP TO \$93 MILLION WOULD SEEM APPROPRIATE FOR EXPORT CREDIT FINANCING, OF WHICH SOME \$52 MILLION IN EXIMBANK CREDITS MIGHT BE NEEDED TO COVER U. S. GOODS (PRIMARILY CONSTRUCTION EQUIPMENT). CRITICAL POINT WOULD BE WAIVER OF TERM ON EXIMBANK LOANS TO PERMIT FINANCING FOR 12-14 YEARS (AT 7 PERCENT). REQUEST EXIMBANK BE PREPARED TO DISCUSS THIS POINT WITH MURRAY. (C) WHILE U. S. AGENCIES, OF COURSE, MAY USE THIS CABLE FOR PURPOSES OF IN- HOUSE PLANNING, REQUEST FOR THE MOMENT MATTER NOT BE DISCUSSED WITH IFT'S OTHER THAN IBRD. NOR SHOULD IT YET BE DISCUSSED WITH POTENTIAL BIDDERS (SE SEE NO OBJECTION TO DISCREET INQUIRIES OF ALCOA ABOUT PROJECT). END SUMMARY.

2. DURING A VISIT TO COSTA RICA EARLY THIS MONTH BY A MR. MEIER OF THE IBRD, THE FIRST COMPREHENSIVE FINANCING PLAN FOR THE PROPOSED BORUCA HYDROELECTRIC PROJECT WAS WORKED OUT WITH OFFICIALS OF THE STATE- OWNED ELECTRIC-

POWER INSTITUTE, ICE. THE ICE OFFICIAL PRIMARILY CONCERNED AT THIS STAGE IS MR. ALEXANDER MURRAY, JR., VICE PRESIDENT OF THE BOARD, WHO WILL VISIT WASHINGTON ON OR ABOUT JUNE 14 TO DISCUSS THE PROJECT AGAIN WITH IBRD AND WITH EXIMBANK, AND IDB. MR. MURRAY'S CONTACT IN WASHINGTON WILL BE GREGOR DOLENC, IBRD LOAN OFFICER. THE PROJECT ENVISAGES CONSTRUCTING THE WORLD'S SECOND LARGEST EARTH- FILLED DAM ON THE TERRABA RIVER, NEAR THE INDIAN VILLAGE OF BORUCA, THEREBY CREATING A RESERVOIR COVERING 200 SQUARE KILOMETERS. FOUR 200 MW GENERATING UNITS WOULD BE INSTALLED, INITIALLY TO PRODUCE SOME 560,000 KW (AROUND THE CLOCK). ALCOA WOULD USE 525,000 KW OF THIS FOR ITS PROPOSED ALUMINUM REFINERY/ SMELTER OPERATION. APPROXIMATELY 30,000 KW WOULD BE REQUIRED FOR AUXILIARY EQUIPMENT -- CRANES, LIGHTING, ETC. WHILE
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ALCOA WOULD BE EXPECTED TO BE ALMOST THE EXCLUSIVE CUSTOMER, THE SYSTEM WOULD BE CONNECTED TO THE NATIONAL GRID. THE RESERVOIR WOULD HOLD SUFFICIENT WATER TO SPAN MORE THAN ONE DRY SEASON, SO THIS WOULD PROVIDE A BASIS FOR WORKING OUT INTERCHANGE AGREEMENTS WHICH WOULD BE MUTALLY BENEFICIAL TO ICE AND TO ALCOA. (ALCOA HAD INITIALLY RESISTED THE

IDEA OF HOOKING UP THE NATIONAL GRID, BUT ACCORDING TO MURRAY, LATER, ON ITS OWN INITIATIVE, DECIDED THAT THIS WOULD POSE LITTLE DANGER TO ITS OPERATIONS AND POSSIBLY COULD PROVIDE INSURANCE IN CASE OF BREAK-DOWNS IN THE BORUCA OPERATIONS).

2. TIME TABLE. MURRAY SAID THAT AT THE END OF APRIL THE ENGINEERING FEASIBILITY STUDY HAD BEEN CONCLUDED WITH THE DETERMINATION THAT THE GEOLOGIC

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ACTION ARA-17

INFO OCT-01 ADP-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

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STR-08 CEA-02 L-03 EUR-25 IGA-02 RSR-01 /167 W

----- 091027

R 311815 Z MAY 73
FM AMEMBASSY SAN JOSE
TO SECSTATE WASHDC 4151

C O N F I D E N T I A L SECTION 2 OF 3 SAN JOSE 1926

PLEASE PASS ALSO TO EXIMBANK AND COMMERCE

E. O. 11652: GDS

TAGS: EFIN, ENRG, EMIN, CS

SUBJECT: BORUCA HYDROELECTRIC PROJECT FOR
ALUMINUM SMELTER

3. PROPOSED FINANCING PLAN. A COPY OF THE DRAFT FINANCING PLAN ENTITLED, " NOTES ON THE MEETING WITH MR. MEIER OF IBRD, BORUCA PROJECT", IS BEING POUCHED TO ARA/ CEN / CR FOR THE ATTENTION OF MR. SULLIVAN. THE TABLES BELOW ARE ADOPTED FROM THAT DOCUMENT. TABLE 1 BELOW SUMMARIZES COST ESTIMATES FOR THE HYDROELECTRIC PROJECT, WHILE TABLE 2 SUGGEST HOW THESE COSTS MIGHT BE COVERED.

TABLE 1
COST ESTIMATES
(MILLIONS \$ US)

	LOCAL	IMPORT
ITEM	TOTAL	COST COST

LAND	12.0	10.4	1.6
ROADS	3.1	1.3	1.8
DAM CONSTRUCTION	100.7	24.7	76.0
TUNNELS & CONCRETE	33.8	16.4	17.4

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WORK			
POWER HOUSE	39.5	6.4	33.1
CONTINGENCIES	27.0	8.4	18.6
TOTAL DIRECT			
INVESTMENT	216.1	67.6	148.5
ADMINISTRATIVE			
& ENGINEERING	21.3	10.2	11.1
INTEREST	42.1	13.0	29.1
TOTAL INVESTMENT	279.5	90.8	188.7
BORUCA SUBSTATION	2.5	1.1	1.4
TRANSMISSION LINES	4.5	2.5	2.0
TOTAL TRANSMISSION			
INVESTMENT	7.0	3.6	3.4
TOTAL PROJECT COST	286.5	94.4	192.1

TABLE 2
(MILLIONS \$ US)
FINANCING PLAN

ITEM CODE:	A	B	C	D	E
TOTAL					
EXIMBANK	--	52	--	--	52
OTHER SUPPLIER					
CREDITS	31	--	10	--	41
IBRD	10	--	--	40	50
IDB	--	5	--	30	15 50
CABEI	--	--	--	13	10 23
ICE BONDS	--	--	--	--	25 25
ALCOA GUARANTEED ICE					
\$ BONDS	--	--	--	--	45 45
TOTAL	41	57	10	83	95 286

ITEM CODE: A. GENERATING EQUIPMENT
B. CONSTRUCTION EQUIPMENT
C. IMPORTS FINANCED BY SUPPLIERS
D. OTHER IMPORTS
E. LOCAL COSTS

4. REMARKS: IN DISCUSSING THE PLAN WITH MURRAY
A NUMBER OF POINTS EMERGED. FIRST, AT THE PRESENT
STAGE THE PLAN IS CLEARLY A FIRST DRAFT, DISCUSSED ONLY
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WITH MEIER OF IBRD. HOWEVER, IF THE PROJECT IS TO BE REALIZED IT SEEMS FAIRLY OBVIOUS THAT NO SINGLE IFI WILL BE WILLING TO HANDLE IT ENTIRELY ON ITS OWN. THUS, IT SEEMS THAT THE PARTICIPATION OF IDB AND CABEI, NEITHER OF WHICH HAS YET BEEN APPROACHED, IS ESSENTIAL. A SECOND POINT IS THAT DESPITE THE FACT THAT MEIER PROJECTED \$25 MILLION AS ICE' S CONTRIBUTION, PLUS \$45 MILLION IN ALCOA- GUARANTEED ICE BONDS. MURRAY SEEMS GENUINELY CONCERNED ABOUT ICE' S ABILITY TO GENERATE ANY SUBSTANTIAL CONTRIBUTION ON ITS OWN (THE MATTER IS FURTHER COMPLICATED BY THE FACT THAT ICE HAS BEEN ALSO NEGOTIATING WITH THE IBRD FOR FINANCING FOR THE \$64 MILLION ARENAL HYDROELECTRIC PROJECT AND PLANS A COSTLY EXPANSION OF ITS TELECOMMUNICATIONS NETWORK AS WELL).

5. A ADDITIONAL POINT OF SOME COMPLEXITY CONCERNS SUPPLIERS' CREDITS. OF THE UP TO \$93 MILLION OF SUCH FINANCING ENVISAGED IN TABLE 2, MURRAY THINKS ABOUT \$52 MILLION WOULD LIKELY BE REQUIRED FOR EXIMBANK FINANCING TO COVER U. S. EQUIPMENT. THE PROBLEM HERE, HOWEVER, WOULD BE TO SECURE A WAIVER OF THE USUAL TERM OF EXIMBANK LOANS IN ORDER TO BRING THE COMPOSITE TERM FOR THE ENTIRE PROJECT TO 18 YEARS. THIS MEANS THAT EXIMBT" WOULD HAVE TO BE WILLING TO CONSIDER 12-14 YEAR FINANCING, ACCORDING TO MURRAY. REGARDING THE REMAINING \$41 MILLION, MURRAY THINKS THAT MOST LIKELY ALL WILL GO FOR PURCHASING SOVIET- BUILT GENERATING EQUIPMENT, AND THAT THE USSR WOULD BE WILLING TO PROVIDE 100 PERCENT FINANCING. SHOULD THE USSR NOT GET THE BID (COMPETITIVE BIDDING REQUIRED BY LAW) THIS ITEM WOULD BREAK DOWN AS SHOWN IN TABLE 2, I. E., THE EXPORT FINANCING BANK OF THE COUNTRY GAINING THE BID WOULD FINANCE \$31 MILLION AND THE IBRD WOULD PUT UP TOE \$10 MILLION IN PARALLEL FINANCING.
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R 311815 Z MAY 73

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 4152

C O N F I D E N T I A L SECTION 3 OF 3 SAN JOSE 1926

PLEASE PASS ALSO TO EXIMBANK AND COMMERCE

E. O. 11652: GDS

TAGS: EFIN, ENRG, EMIN, CS

SUBJECT: BORUCA HYDROELECTRIC PROJECT FOR
ALUMINUM SMELTER

6. DESPITE THE FACT THAT MORE HURDLES STILL LIE AHEAD THAN BEHIND, SUCCESSFUL COMPLETION OF THE ENGINEERING STUDY SEEMS TO BE VIEWED BY MURRAY AS GOOD EVIDENCE THAT THE PROJECT IS TAKING ON MOMENTUM. STILL, AT THIS POINT IT MUST BE BORN IN MIND THAT THE PLAN IS HIGHLY TENTATIVE AND WILL UNDOUBTEDLY UNDERGO EXTENSIVE CHANGE BEFORE FINALLY APPROVED. INSOFAR AS WE KNOW, THE OFFICIAL STATUS OF THE PLAN IS ONLY THAT OF NOTES ON PRELIMINARY CONVERSATIONS. (IN THIS CONNECTION, WE NOTE FROM SECSTATE 087849 CONCERNING THE AID- IDB- IBRD 1974-75 REVIEW, THAT \$30 MILLION HAS BEEN PROJECTED BY THE IBRD FOR THIS PARTIQLAR PROJECT, WHILE THE MURRAY/ MEIER PLAN FORESEES ABOUT \$50 MILLION FROM THE IBRD OVER THE LIFE OF THE PROJECT. OBVIOUSLY, H MANY DETAILS MUST BE WORKED OUT REGARDING WHO PUTS IN WHAT AND OVER WHAT TIME SPAN.)

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7. ANOTHER SET OF PROBLEMS IS PRESENTED BY THE ASSUMPTION BY MURRAY THAT THE USSR WILL MOST LIKELY WIN BIDS FOR ABOUT \$41 MILLION IN EQUIPMENT, WITH THE EXIMBANK/ SOVIET SPLIT OF THE NEEDED IMPORTS (EXCLUDING, OF COURSE, IFI- FINANCED IMPORTS) BEING

ROUGHLY \$52 MILLION/\$41 MILLION. THIS RAISES TWO MAJOR QUESTIONS: (A) FROM A BALANCE OF PAYMENTS STANDPOINT ARE WE WILLING TO CONCEDE SO EASILY THIS MUCH TO THE SOVIETS? AND (B) POLITICALLY, IS IT IN OUR INTEREST TO ENTER INTO SOME SUCH TACIT SHARING ARRANGEMENT? (PERHAPS EXIMBANK SHOULD ALSO BE PREPARED TO LOOK AT SOME IMPORT ITEMS WHICH MURRAY AND MEIER HAVE

SUGGESTED FOR THE IFT'S.)

8. IN SUM, THIS PROJECT IS OF MAJOR IMPORTANCE.
IT PRESENTS AN OPPONRTUNITY FOR QUITE SIGNIFICANT EXPORT
SALES. POLITICALLY, IT POSES THE POSSIBILITY OF A SIGNI-
FICANT INCREASE IN THE SOVIET PRESENCE HERE AND POSSIBLY
THE BEGINNING OF A NEW PHASE IN SOVIET- COSTA RICAN
COMMERCIAL RELATIONS MARKED BY A SUBSTANTIAL INCREASE
IN TRADE IN BOTH DIRECTIONS. FOR ALL THESE REASONS, WE
FEEL THAT MURRAY'S PROPOSALS DESERVE VERY CAREFUL STUDY.
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*** Current Handling Restrictions *** n/a

*** Current Classification *** CONFIDENTIAL

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Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973SANJO01926
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GDS
Errors: n/a
Film Number: n/a
From: SAN JOSE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730556/aaaajwdy.tel
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